

Message Text

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12

ACTION EUR-12

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9264

INFO AMEMBASSY OSLO

C O N F I D E N T I A L LONDON 03953

DEPT PASS TREASURY, FEA

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: PETROLEUM REVENUE TAX: CONOCO CRITICIZES HMG
PROPOSALS

REF: LONDON 3170; LONDON A-182

1. BEGIN UNCLASSIFIED: CONOCO UK CHAIRMAN, JACK REYNOLDS, TOLD MARCH 7 PRESS CONFERENCE THAT HIS COMPANY WAS HAVING SECOND THOUGHTS ON MERITS OF PETROLEUM REVENUE TAX (PRT) PACKAGE ANNOUNCED FEBRUARY 25 BY PAYMASTER GENERAL DELL. RETRACTING HIS PREVIOUS PUBLIC STATEMENT THAT PRT PROPOSALS WERE "SENSIBLE", REYNOLDS SAID FURTHER ANALYSIS INDICATED PACKAGE WAS LESS ENCOURAGING THAN INITIALLY THOUGHT. HE SPECIFICALLY CRITICIZED UK TREASURY INTERPRETATION OF OIL ALLOWANCE PROVISION WHICH PROHIBITS CARRYING FORWARD OF UNUSED PORTION OF ANNUAL ONE MILLION TON ALLOWANCE (FREE OF PRT) UP TO MAXIMUM OF TEN MILLION TONS PER FIELD. HE ARGUED IT WILL BE IMPOSSIBLE
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FOR MANY COMPANIES HOPING TO DEVELOP MIDDLE-SIZED (200 -

500 MILLION BARRELS) MARGINAL FIELDS TO OFFSET FULL TEN MILLION TONS OVER THEIR SHORT LIFE AND COULD MEAN SUBSTANTIAL PRT PAYMENTS DURING BRIEF PEAK PRODUCTION PERIOD REYNOLDS EXPRESSED HIS CONCERN THAT PRT AS IT STOOD MIGHT IMPEDE DEVELOPMENT OF FIELDS SUCH AS CONOCO'S HUTTON. IT WAS NOTED THAT PAYMASTER DELL HAD REJECTED CONOCO'S LETTER OUTLINING CONTINUED OPPOSITION ON THIS AND OTHER ASPECTS OF PRT.

2. BRITISH PRESS GAVE REYNOLDS' REMARKS SUBSTANTIAL COVERAGE. CAPTIONS READ: "CONOCO RENEWS PULL OUT WARNINGS" (FT); "CONOCO HINTS AT NORTH SEA CUTBACKS" (TIMES); AND, "ANGRY AMERICAN GIANT THREATENS OIL GO-SLOW" (GUARDIAN). GUARDIAN ARTICLE ALSO SAID REYNOLDS HAD ALLEGED CONOCO'S PARENT BOARD HAD BEEN "MISLED" BY TEAM OF SENIOR BRITISH CIVIL SERVANTS LED BY SIR JACK RAMPTON WHO VISITED US LAST WEEK TO DISCUSS NORTH SEA OIL POLICY. END UNCLASSIFIED

3. BEGIN CONFIDENTIAL: REYNOLDS TOLD US HIS PUBLIC ABOUT-FACE ON PRT HAD BEEN MOTIVATED BOTH BY GENUINE CONCERN OVER PRT AFTER FURTHER STUDY AND BY "POLITICAL ADVICE" FROM CONSERVATIVE MPS THAT SOME APPARENT OIL INDUSTRY OPPOSITION TO PRT WOULD BE USEFUL. IT WAS SUGGESTED THAT WITHOUT PUBLIC INDUSTRY OPPOSITION, IT WOULD BE DIFFICULT FOR CONSERVATIVE OPPOSITION TO MODIFY PRT PROVISIONS EITHER BEFORE PASSAGE OF OIL TAXATION BILL OR AT SOME FUTURE DATE WHEN TORIES RETURN TO POWER.

4. REYNOLDS BELIEVES OVERLY NEGATIVE COVERAGE IN BRITISH PRESS (CONTRARY TO STRAIGHT-FORWARD COVERAGE OF WALL STREET JOURNAL AND REUTERS) MADE CHANCES NIL OF OBTAINING ANY FURTHER CHANGES IN PRT, AT LEAST ON OIL ALLOWANCE PROVISION. HE DENIED SAYING CONOCO WOULD PULL OUT OF NORTH SEA OR THAT BRITISH OFFICIALS HAD MISLED HIS PARENT COMPANY. HE CONCLUDED CONOCO IS MORE OR LESS ON ITS OWN NOW WITH OTHER COMPANIES CONFIDING PRIVATELY THAT CONOCO'S CALCULATIONS ARE RIGHT BUT THAT HMG WILL NOT BE MOVED, PARTICULARLY AFTER POOR PRESS PLAY.

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5. COMMENT: THIS LATEST AND PROBABLY LAST HICCUP ON PRT BY CONOCO PROBABLY HAS REDUCED WHAT LITTLE CHANCE THERE WAS FOR OBTAINING GREATER HMG CONCESSIONS ON PRT "FINE PRINT" WHETHER IT BE OIL ALLOWANCE, INTRA-COMPANY INTEREST RELIEF OR OTHER PROVISIONS.

RICHARDSON

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Disposition Authority: KelleyW0
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Disposition Date: 28 MAY 2004
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